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DAN E ARNETT  
CHIEF OF STAFF

May 11, 2005

Mr. Charles L.A. Terreni  
Chief Clerk/Administrator  
South Carolina Public Service Commission  
101 Executive Center Dr., Suite 100  
Columbia, SC 29210

REC'D  
2005 MAY 11 PM 5:04  
SC PUBLIC SERVICE COMMISSION

Re: Carolina Power & Light Company dba Progress Energy Carolinas, Inc. -  
Annual Review of Base Rates for Fuel Costs.

Docket No. 2005-1-E

Dear Mr. Terreni:

Enclosed for filing please find the original and twenty-six (26) copies of the Direct Testimony of A.R. Watts and Jacqueline R. Cherry in the above referenced matter. Please date stamp the extra copy enclosed and return it to me via our courier.

Also, we have served same on all parties of record and enclose a Certificate of Service to that effect.

Please let me know if you have any questions.

Sincerely,

*Wendy B. Cartledge*

Wendy B. Cartledge

WBC/rng

cc: Len S. Anthony, Esquire  
Scott Elliott, Esquire  
Thomas S. Mullikin, Esquire  
Garrett A. Stone, Esquire

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION**  
**OF SOUTH CAROLINA**  
**DOCKET NO. 2005-1-E**

IN RE: Carolina Power & Light Company    )  
      d/b/a Progress Energy Carolinas, Inc.)  
      Annual Review of Base Rates for     )  
      Fuel                                     )  
\_\_\_\_\_)

**CERTIFICATE OF SERVICE**

This is to certify that I, Rena Grant, an employee with the Office of Regulatory Staff, have this date served one (1) copy of the **Direct Testimony of A.R. Watts and Jacqueline R. Cherry** in the above-referenced matter to the person(s) named below via electronic mail and by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

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Progress Energy Services Company  
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A handwritten signature in black ink, reading "Rena Grant". The signature is written in a cursive, flowing style. The first name "Rena" is written with a large, stylized 'R' and 'G'. The last name "Grant" is written in a more standard cursive script. The signature is positioned above a horizontal line.

Rena Grant

May 11, 2005  
Columbia, South Carolina

**THE OFFICE OF REGULATORY STAFF**  
**DIRECT TESTIMONY AND EXHIBITS**  
**OF**  
**Jacqueline R. Cherry**



**DOCKET NO. 2005-1-E**  
**Carolina Power & Light Company dba Progress**  
**Energy Carolinas, Inc. - Annual Review of Base**  
**Rates for Fuel Costs Annual Review**

**TESTIMONY OF JACQUELINE R. CHERRY**

**FOR**

**THE OFFICE OF REGULATORY STAFF**

**DOCKET NO. 2005-1-E**

**IN RE: CAROLINA POWER & LIGHT  
d/b/a PROGRESS ENERGY CAROLINA'S INC.**

1  
2  
3  
4  
5  
6  
7  
8  
9  
10 **Q. PLEASE STATE FOR THE RECORD YOUR NAME, BUSINESS**

11 **ADDRESS AND OCCUPATION.**

12 **A.** My name is Jacqueline R. Cherry. My business address is 1441 Main  
13 Street, Suite 300, Columbia, South Carolina, 29201. I am employed by  
14 the Office of Regulatory Staff ("ORS") in the Audit Department, as an  
15 Audit Manager.

16 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND**  
17 **EXPERIENCE.**

18 **A.** I received a B.S. Degree in Business Administration, with a major in  
19 Accounting from Johnson C. Smith University in 1976. I was employed  
20 by the Office of Regulatory Staff in October 2004. I have over 25 years  
21 of experience auditing utility companies, previously, for the Public  
22 Service Commission of South Carolina. I have participated in cases  
23 involving gas, electric, telephone, water and wastewater utilities.

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**THE OFFICE OF REGULATORY STAFF  
1441 Main Street, Suite 300, Columbia, SC 29201  
Post Office Box 11263, Columbia, SC 29211**

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**

**PROCEEDING?**

**A.** The purpose of my testimony is to summarize the results of ORS Audit Staff's examination of Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc.'s ("the Company") Fuel Adjustment Clause operation for the period January 2004 through June 2005. The findings of the examination are set forth below and in the exhibits attached to this testimony.

**Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR PREFILED TESTIMONY.**

**A.** I have attached the Audit Report of the Office of Regulatory Staff for Docket No. 2005-1-E, Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc.'s Annual Review of Base Rates for Fuel Costs, with Audit Exhibits JRC-1 through JRC-9. The contents of the Audit Report were either prepared by me or were prepared under my direction and supervision.

**Q. WHAT WAS THE SCOPE OF YOUR AUDIT?**

**A.** ORS Audit Staff traced the fuel information as filed in the Company's required monthly reports to the Company's books and records. The current fuel review period covered the period January 2004 through June 2005. However, the ORS Audit Staff did not examine the months of April, May and June 2005 because the per book figures were not

1 available. Estimated figures were used for those months. The purpose  
2 of the audit was to determine if Carolina Power & Light Company d/b/a  
3 Progress Energy Carolinas, Inc. had computed and applied the monthly  
4 Fuel Adjustment Clause in accordance with the approved clause and  
5 S.C. Code Ann. §58-27-865(A). To accomplish this task, ORS examined  
6 the components surrounding the operation of the clause.

7 **Q. WHAT WERE THE STEPS THAT THE ORS EMPLOYED WITHIN THE**  
8 **SCOPE OF THE AUDIT?**

9 **A.** The examination consisted of:

- 10 1. Analyzing the Fuel Stock Account – Account # 151
- 11 2. Sampling Receipts to the Fuel Stock Account – Account # 151
- 12 3. Verifying Charges to Nuclear Fuel Expense - Account # 518
- 13 4. Verifying Purchased & Interchange Power Fuel Costs
- 14 5. Verifying KWH Sales
- 15 6. Comparison of Coal Costs
- 16 7. Recalculating the Fuel Costs Adjustment Factors and Verifying
- 17 the Unbilled Revenue
- 18 8. Recalculating the True-up for the Over (Under)-Recovered
- 19 Fuel Costs
- 20 9. Analyzing Spot Coal Purchasing Procedures

21 **Q. WITH REGARD TO THE TRUE-UP OF OVER/ (UNDER)-**  
22 **RECOVERED FUEL COSTS, WOULD YOU PLEASE ELABORATE**  
23 **ON ORS AUDIT STAFF'S COMPUTATION?**

24 **A.** ORS analyzed the cumulative over/ (under)-recovery of fuel costs that  
25 the Company incurred for the period January 2004 through March 2005.

Testimony of Jacqueline R. Cherry

1 The cumulative (under)-recovery amount totaled (\$27,998,971). ORS  
2 then added the projected (under)-recovery of (\$2,333,564) for the  
3 month of April 2005, the projected (under)-recovery of (\$3,394,987) for  
4 the month of May 2005 and the projected (under)-recovery of  
5 (\$5,713,831) for June 2005 to arrive at a cumulative (under)-recovery of  
6 (\$39,441,353). The Company's cumulative (under)-recovery as of June  
7 2005, per its testimony in Docket No. 2005-1-E {Barkley Exhibit No. 4},  
8 totals (\$41,483,716). The difference between the Company's and  
9 ORS's cumulative (under)-recovery totals \$2,042,363, which is based  
10 on several adjustments, which will be discussed later in my testimony.

11 It should be noted that ORS's cumulative (under)-recovery of fuel  
12 costs as of actual March 2005 totaled (\$27,998,971). The Company's  
13 cumulative (under)-recovery total as of actual March 2005 totaled  
14 (\$30,041,333), per its testimony in Docket No. 2005-1-E {Barkley  
15 Exhibit No. 4}. The difference between the Company's and the ORS's  
16 cumulative (under)-recovery as of actual March 2005 totals \$2,042,362  
17 (\$1 rounding differences are noted between the cumulative (under)-  
18 recovery differences for both actual March 2005 and estimated June  
19 2005). ORS Audit Exhibit JRC-7, South Carolina Fuel Cost  
20 Computation, consisting of 4 pages, provides the explanation for this  
21 cumulative (under)-recovery difference as of March 2005.



Testimony of Jacqueline R. Cherry

As stated in Carolina Power & Light Company d/b/a Progress

Energy Carolinas, Inc.'s Adjustment for Fuel Costs, fuel costs will be included in base rates to the extent determined reasonable and proper by the Commission.

Accordingly, the Commission should consider the (under)-recovery of (\$39,441,353) along with the anticipated fuel costs for the period July 1, 2005 through June 30, 2006, for the purpose of determining the base cost of fuel in base rates effective July 1, 2005. This (\$39,441,353) (under)-recovery figure was provided to ORS's Electric and Gas Regulation Department.

**Q. MRS. CHERRY, WOULD YOU PLEASE EXPLAIN YOUR FIRST FOOTNOTE ON ORS AUDIT EXHIBIT JRC-7?**

**A.** The first footnote addresses ORS Audit Staff's cumulative (under)-recovery balance brought forward from December 2003 of (\$6,038,891), as reflected on this exhibit. This is the amount of the cumulative (under)-recovery balance as of December 2003, as shown on the PSC "Commission Staff Report" (Audit Exhibit G—Page 2 of 3), from Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc.'s last fuel review period (actual January 2003 – December 2003), Docket No. 2004-1-E. This (under)-recovery balance of (\$6,038,891) differs from the Company's beginning cumulative (under)-recovery balance from December 2003 by \$948,476. This beginning cumulative difference is

1 based on the PSC Staff's corrections from the last fuel review period. It  
2 should be noted that PEC, in its testimony, includes an applicable  
3 adjustment of \$948,472 (with a \$4 rounding difference) to March 2004's  
4 monthly deferred entry.

5 **Q. MRS. CHERRY, WOULD YOU PLEASE EXPLAIN YOUR SECOND**  
6 **FOOTNOTE ON ORS AUDIT EXHIBIT JRC-7?**

7 **A.** Yes, The second footnote addresses ORS Audit Staff's adjustments to  
8 the Company's Purchased Power Costs, on a total system basis.  
9 ORS's Purchased Power figures for January 2004 through March 2005  
10 and the resultant over/(under)-recovery monthly deferred fuel amounts  
11 for January 2004 through March 2005 reflects ORS's compliance with  
12 the revised section of the S.C. Fuel Statute (updated as of February  
13 2004), S.C. Code Ann. §58-27-865(A). This Statute addresses "fuel  
14 costs related to purchased power." Sub-section (A)(2)(b) of the revised  
15 Statute stated that the delivered cost of economy purchases, including  
16 transmission charges, could be included in Purchased Power Costs if  
17 those types of purchases were proven to be "less than the purchasing  
18 utility's avoided variable costs for the generation of an equivalent  
19 quantity of electric power." After ORS applied this revised Statute to the  
20 examined economic purchases along with the applicable avoided cost,  
21 ORS's avoided cost adjustment to Purchased Power Costs, on a total  
22 system basis, totaled **(\$171,610)**. This figure reflects the usage of an

1 avoided cost as a lesser price, at that point in time, over a purchase  
2 price.

3 As mentioned previously, according to the new Statute section, transmission  
4 charges could be included in the delivered cost of economy purchases.

5 However, ORS made an adjustment in March 2004 to Purchased Power  
6 Costs to exclude a transmission charge totaling \$587,500 because the  
7 transmission charge was reflected with no corresponding purchase for that  
8 month. Since the purchase transaction was \$-0-, ORS excluded the fixed  
9 transmission charge – (\$587,500).

10 ORS reduced Purchased Power Costs, on a total system basis, for a  
11 total of (\$759,110). See Audit Exhibit JRC-8 for details.

12 **Q. DID THE COMPANY MAKE ANY ADJUSTMENTS OR TRUE-UPS**  
13 **DURING THE ACTUAL REVIEW PERIOD?**

14 **A.** Yes. My third footnote in Audit Exhibit JRC-7 explains that in December  
15 2004, the Company made an adjustment to reflect a correction to its  
16 S.C. KWH Sales from November 2004. The sales had been understated  
17 for that month. This true-up adjustment was reflected as an additional  
18 monthly entry to the Deferred Fuel Account as an (under)-recovery entry  
19 of (\$18,500). ORS agreed with this adjustment.

20 **Q. MRS. CHERRY, WOULD YOU PLEASE EXPLAIN YOUR FINAL**  
21 **FOOTNOTE ON ORS AUDIT EXHIBIT JRC-7?**

1 **A.** My fourth and final footnote in Audit Exhibit JRC-7, explains an  
2 adjustment the ORS made for an outstanding PSC Fuel Docket of PEC.  
3 (Docket No.2003-1-E) In January 2004, the Richland County Circuit  
4 Court issued an order addressing appeals of fuel cases of Duke and  
5 SCE&G. The Circuit Court held that the avoided cost methodology  
6 approved by the PSC to handle non-identifiable fuel costs on purchased  
7 power transactions was not allowed under the fuel statute. Therefore, to  
8 resolve the outstanding CP&L (PEC) docket, which dealt with this issue,  
9 ORS proposes the use of the N.C. Public Staff's Fuel Cost Proxy  
10 Percentages for that review year of 2002. The adjustment is reflected in  
11 the S.C. Jurisdictional cumulative balance of the Deferred Account as an  
12 over-recovery amount of **\$1,906,438**. See Audit Exhibit JRC-9 for  
13 details.

14 **Q. HOW DID THIS IMPACT THE (UNDER)-RECOVERY OF FUEL COSTS?**

15 **A.** As mentioned previously, the ORS cumulative (under)-recovery of fuel  
16 costs as of actual March 2005 totaled (\$27,998,971). The Company's  
17 cumulative (under)-recovery total as of actual March 2005 totaled  
18 (\$30,041,333). The difference between the Company's and the ORS's  
19 cumulative (under)-recovery as of actual March 2005 totaled \$2,042,362.  
20 The cumulative (under)-recovery balance as of estimated June 2005 of  
21 the Company totaled (\$41,483,716) and the ORS totaled (\$39,441,353).

1 **Q. MRS. CHERRY, WOULD YOU PLEASE DESCRIBE THE ORS AUDIT**

2 **STAFF EXHIBITS?**

3 **A.** ORS prepared exhibits from Carolina Power & Light Company d/b/a  
4 Progress Energy Carolinas, Inc.'s books and records reflecting fuel costs  
5 during the review period.

6 Specifically, these exhibits are as follows:

7 Exhibit JRC-1: Coal Cost Statistics

8 Exhibit JRC-2: Received Coal-Cost Per Ton (Per Plant)

9 Exhibit JRC-3: Received Coal-Cost Per Ton Comparison

10 Exhibit JRC-4: Coal Fuel Stocks

11 Exhibit JRC-5: Total Burned Cost (Fossil and Nuclear)

12 Exhibit JRC-6: Cost of Fuel

13 Exhibit JRC-7: South Carolina Fuel Cost Computation

14 Exhibit JRC-8: Avoided Cost and Other Purchase Power Adjustments

15 Exhibit JRC-9: Adjustment for the Previous CP&L Docket No. 2003-1-E

16 **Q. MRS. CHERRY, WHAT WERE THE RESULTS OF THE ORS AUDIT**

17 **DEPARTMENT'S REVIEW?**

18 **A.** Based on the ORS Audit Staff's examination of Carolina Power & Light  
19 Company d/b/a Progress Energy Carolinas, Inc.'s books and records,  
20 and the utilization of the fuel cost recovery mechanism as directed by the  
21 Commission, the ORS Audit Department is of the opinion that the

1       Company has complied with the directives (per the Fuel Adjustment

2       Clause) of the Commission.

3   **Q. MRS. CHERRY, DOES THIS CONCLUDE YOUR TESTIMONY?**

4   **A.** Yes, it does.

5

**DIRECT EXHIBITS**

**OF**

**JACQUELINE R. CHERRY**

**Carolina Power & Light Company dba Progress  
Energy Carolinas, Inc. - Annual Review of Base  
Rates for Fuel Costs Annual Review**

**REPORT OF THE AUDIT DEPARTMENT**

**THE OFFICE OF REGULATORY STAFF**

**DOCKET NO. 2005-1-E**

**CAROLINA POWER & LIGHT COMPANY  
D/b/a PROGRESS ENERGY CAROLINAS, INC.**

**ANNUAL REVIEW OF BASE RATES FOR FUEL COSTS**

**REVIEW PERIOD: JANUARY 1, 2004 – MARCH 31, 2005 (ACTUAL)**

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**Note:** All of the ORS Audit Exhibits were prepared by the ORS Audit Staff.



**REPORT OF THE AUDIT DEPARTMENT**

**DOCKET NO. 2005-1-E**

**CAROLINA POWER & LIGHT COMPANY**

**d/b/a PROGRESS ENERGY CAROLINAS, INC.**

**ANNUAL REVIEW OF BASE RATES FOR FUEL COSTS**

**ANALYSIS**

The Office of Regulatory Staff's (ORS) Audit Department has made an examination of the books and records of Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc. (hereinafter referred to as "the Company" or "PEC") relative to the requirement under Docket No. 2005-1-E and S.C. Code Ann. §58-27-865(A), that periodic hearings be conducted before the Commission concerning the Adjustment of Base Rates for Fuel Costs.

The current examination of Carolina Power & Light Company's d/b/a Progress Energy Carolinas, Inc.'s Retail Fuel Adjustment Clause covered the period of January 2004 through June 2005. However, the ORS Audit ORS did not examine the months of April, May, and June 2005 because the per book figures were not available during ORS's audit. The amounts of over/(under)-recovery for April 2005, May 2005 and June 2005 were estimated for the purpose of adjusting base rates effective July 1, 2005. The estimates for these three months will be subject to true-up at Carolina Power & Light Company's next hearing.

The ORS Audit Department's examination consisted of the following:

1. Analyzing the Fuel Stock Account - Account # 151
2. Sampling Receipts to the Fuel Stock Account --Account #151

3. Verifying Charges to Nuclear Fuel Expense --- Account # 518
4. Verifying Purchased and Interchange Power Fuel Costs
5. Verifying KWH Sales
6. Comparison of Coal Costs
7. Recalculating the Fuel Costs Adjustment Factors and Verifying Unbilled Revenue
8. Recalculating the True-up for the Over (Under)-Recovered Fuel Costs
9. Analysis of Spot Coal Purchasing Procedures

### **1. ANALYZING THE FUEL STOCK ACCOUNT - ACCOUNT # 151**

ORS's analysis of the Fuel Stock Account consisted of tracing receipts to and issues from the fuel management system to the General Ledger, reviewing monthly journal entries originating in fuel accounting, and ensuring that only proper charges are entered in the Company's computation of fuel costs for purposes of adjusting base rates for fuel costs.

### **2. SAMPLING RECEIPTS TO THE FUEL STOCK ACCOUNT-- ACCOUNT #151**

ORS's sample of coal receipts to the Fuel Stock Account consisted of randomly selecting transactions and tracing each of these randomly selected transactions to a waybill, supplier voucher, and a freight voucher for documentation purposes. It also consisted of recalculating the transactions to insure mathematical accuracy.

### **3. VERIFYING CHARGES TO NUCLEAR FUEL EXPENSE - ACCOUNT # 518**

ORS traced the expense amounts for nuclear fuel to the books and records for the period January 2004 through March 2005 to verify the accuracy of the expenses to fuel amortization schedules.

#### **4. VERIFYING PURCHASED AND INTERCHANGE POWER FUEL COSTS**

ORS performed an examination of the Company's purchased and interchange power amounts used in the Fuel Adjustment Clause (FAC) for the period January 2004 through March 2005.

ORS obtained the detail of the purchases and sales made by PEC to and from other electric utilities. ORS verified the amounts that are being used in computing total fuel costs for each month. These details allowed the ORS to identify fuel costs that are being passed through the clause in computing the factor above or below the base for each period. See ORS's Exhibit JRC-6 for details.

ORS's Purchased Power figures for January 2004 through March 2005 and the resultant over (under)-recovery monthly deferred fuel amounts for January 2004 through March 2005 reflect the ORS's compliance with the revised section of the S.C. Fuel Statute (updated as of February 2004), S.C. Code Ann. §58-27-865(A). This Statute addresses "fuel costs related to purchased power." Sub section (A)(2)(b) of the revised Statute stated that the delivered cost of economy purchases, including transmission charges, could be included in Purchased Power Costs if those types of purchases were proven to be "less than the purchasing utility's avoided variable costs for the generation of an equivalent quantity of electric power." After ORS applied this revised Statute to the examined economic purchases along with the applicable avoided costs, ORS's adjustment to Purchased Power Costs, on a total system basis, totaled (\$171,610). This figure reflects the usage of an avoided cost as a lesser price, at that point in time, over a purchase price.

As mentioned previously, according to the new Statute section, transmission charges associated with economy purchases of electric power could be included in the delivered cost of purchases. However, ORS made an adjustment in March 2004 to Purchased Power Costs to exclude a transmission charge totaling \$587,500 because the transmission charge was reflected with

no corresponding purchase for that month. Since the purchase transaction was \$-0-, ORS excluded the fixed transmission charge of \$587,500. ORS trace the sales and purchases transactions for January 2004 through March 2005 to the Company's sales and purchases monthly reports and on a sample basis, traced to monthly invoices. ORS recomputed the sales and purchases.

In accordance with Public Service Commission Order No. 90-961, Docket No. 90-004-E, dated October 18, 1990, ORS reviewed the Company's non-firm, off-system transactions for the review period.

During this review period, ORS also made an adjustment for an outstanding PEC (CP&L) Public Service Commission Fuel Adjustment Clause Docket No. 2003-1-E. This docket dealt with the issue of non-identifiable fuel costs in purchase transactions (Purchased Power Costs). In January 2004, the Richland County Circuit Court, in appeals concerning the fuel cases of Duke Power Company and SCE&G interpreted the S.C. Fuel Statute's then current definition section that dealt with fuel costs in purchase power transactions. The Court ruled that the avoided cost proxy that was used in S.C. to handle non-identifiable fuel costs in purchase transactions was not clearly defined to be used in the S.C. Fuel Statute. Therefore, to resolve the outstanding CP&L (PEC) docket, ORS proposes the use of the N.C. Public Staff's Fuel Cost Proxy Percentages for the review year of 2002 (Docket No. 2003-1-E). The adjustment is reflected in the S.C. Jurisdictional cumulative balance of the Deferred Account as an over-recovery amount of \$1,906,438.

## **5. VERIFYING KWH SALES**

ORS verified total system sales, as filed in the monthly fuel factor computation, for the months of January 2004 through March 2005. This monthly figure was then used to determine the fuel cost per KWH sold.

## **6. COMPARISON OF COAL COSTS**

ORS prepared exhibits from PEC's books and records reflecting coal costs during the review period. Specifically, these exhibits are as follows:

### **Audit Exhibit JRC-1: COAL COST STATISTICS**

### **Audit Exhibit JRC-2: RECEIVED COAL-COST PER TON (PER PLANT)**

### **Audit Exhibit JRC-3: RECEIVED COAL-COST PER TON COMPARISON**

With reference to Audit Exhibit JRC-1, Coal Cost Statistics, ORS has shown a detailed analysis of spot and contract coal for the fifteen (15) months ended March 2005. Also, in Audit Exhibit JRC-1, the Weighted Average of Coal Received is reflected for the fifteen-month period. Total costs for the fifteen-month period were divided by the total tons for the fifteen-month period in arriving at the average costs per ton received of \$64.00.

In Audit Exhibit JRC-2, Received Coal-Cost Per Ton (Per Plant), ORS reflects the overall cost per ton of coal by month per plant.

In Audit Exhibit JRC-3, Received Coal-Cost Per Ton Comparison, ORS reflects the overall cost per ton of coal by month for the three major electric utilities regulated by this Commission.

## **7. RECALCULATING THE FUEL COSTS ADJUSTMENT FACTORS AND**

### **VERIFYING UNBILLED REVENUES**

ORS recalculated the Fuel Costs Adjustment Factors for the months of January 2004 through March 2005 utilizing information obtained from the Company's records.

With reference to fuel cost, ORS verified the Total Fuel Costs for the months of January 2004 through March 2005 to the Company's books and records.

In recalculating the monthly factors, ORS divided the Total Cost of Fuel Burned by Total System Sales to arrive at fuel costs per KWH sales. The base fuel cost per KWH, included in

the base rates, is then subtracted from the fuel cost per KWH sales and the resulting figure represents the fuel cost adjustment above or below base per KWH sales. The South Carolina Retail Jurisdictional KWH deferrals were checked to the Company's records. The actual Unbilled Revenue for each month was verified to the Company's books and records.

#### **8. RECALCULATING THE TRUE-UP FOR THE OVER (UNDER)-RECOVERED FUEL COSTS**

ORS analyzed the cumulative (under)-recovery of fuel costs that the Company had incurred for the period January 2004 through March 2005 totaling (\$27,998,971). ORS added the projected (under)-recovery of (\$ 2,333,564) for the month of April 2005, the projected (under)-recovery of (\$ 3,394,987) for the month of May 2005, and the projected (under)-recovery of (\$5,713,831) for the month of June 2005 to arrive at a cumulative (under)-recovery of (\$39,441,353) as of June 2005. The Company's cumulative (under)-recovery, per its testimony in Docket No. 2005-1-E, as of March 2005 totals (\$30,041,333) and as of June 2005, the cumulative (under)-recovery totals (\$41,483,716). The difference between the Company's and the ORS's cumulative (under)-recovery as of actual March 2005 totals \$2,042,362. The difference between the Company's and ORS's cumulative (under)-recovery, as of June 2005, totals \$2,042,363 (\$1 rounding difference noted between the cumulative (under)-recovery differences for actual March 2005 and estimated June 2005). ORS Audit Exhibit JRC-7, South Carolina Fuel Cost Computation, consisting of 4 pages, provides the explanation for this cumulative (under)-recovery difference as of March 2005.

As stated in Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc.'s S.C. Retail Adjustment for Fuel Costs Rider, fuel costs will be included in base rates to the extent determined reasonable and proper by the Commission.

Accordingly, the Commission should consider the (under)-recovery of (\$39,441,353) along with the anticipated fuel costs for the period July 1, 2005 through June 30, 2006, for the purpose of determining the base cost of fuel in base rates effective July 1, 2005. This (\$39,441,353) (under)-recovery figure was provided to ORS's Electric and Gas Regulation Department.

## **9. ANALYSIS OF SPOT COAL PURCHASING PROCEDURES**

ORS examined the procedure followed by the Company's fossil fuel area, the Regulated Fuels Department, for obtaining and accepting bids on spot coal. The Regulated Fuels Department maintains a list of coal vendors (suppliers) from whom bids are solicited as needed. When bids are requested, the Regulated Fuels Department's procurement section electronically mails each of these coal vendors a Coal Quotation Form and letter requesting bids. In order for a coal vendor's name to be on this mailing list, the coal vendor must possess the necessary financial, technical, and business resources to supply coal consistent with the Company's requirements.

The Coal Quotation Forms require information such as the name of the coal company (the supplier), the name of the producer, the name of the mine, the number of tons offered, coal specifications, price per ton, the month(s) the shipment will be made, mining methods of the producer, and shipping transportation data. It should be noted that these solicitation letters and Coal Quotation Forms, based on whether a coal vendor has any coal to sell, are sent to the suppliers when there are near-term needs (one to fifteen months) for coal.

If the Company decides to purchase spot coal in a given month, after reviewing their spot coal requirements, then all the bids received are evaluated. The Company normally requires all bids to be made on Coal Quotation Forms or are OTC bids. For evaluation purposes, an economic analysis is performed, and then an optimization model is run. This is in addition to recommending the

distribution of the coal to the plants to ensure compliance with sulfur limitations imposed by State and Federal regulations, as well as to exclude any coal that may exceed other environmental and generating unit constraints.

The Company's coal procurement personnel consider at least three factors when they evaluate the coal bids: (a) cost of the delivered coal on a cents/mmmbtu basis (including freight), (b) the BTU, ash, moisture, volatiles, grindability, ash softening temperature, and sulfur content of the coal offered (for operational and environmental purposes), and (c) the past performance of the supplier and the coal obtained from the producer. The Company's coal procurement personnel determine the current market price for coal prior to negotiating with the coal vendors over their bids. In this way, the coal procurement personnel determine the limits they should stay within when bargaining for coal. The coal procurement personnel bargain over the price of the coal as well as other possible terms and conditions of a prospective purchase. Coal procurement personnel will either accept or reject the coal vendor's offer or make a counter-offer to the vendor's offer.

Upon agreement on a coal purchase, the Regulated Fuels Department executes a contract. Both parties sign the contract. The coal vendor takes samples of coal according to ASTM Standards. The samples are sent to an independent fuel laboratory which analyzes each spot coal shipment for BTU, ash, moisture and sulfur content, and periodically analyzes coal for volatiles, grindability, and ash softening temperature. The coal analysis results are entered into the computerized Fuel Management System, which is used by the Regulated Fuels Department to monitor coal receipts and to process coal payments. The appropriate premium or penalty on the coal purchased is determined by the Regulated Fuels Department through the Fuel Management System which adds a premium or assesses a penalty to the total amount due to the coal vendor, and the results are forwarded to the Company's Accounting Department. The Regulated Fuels



Department closely monitors the quality and reliability of coal shipped by various producers. If a certain producer renders poor performance, the coal procurement personnel consider this past performance when analyzing any future offers received from the supplier.

Occasionally, the Regulated Fuels Department receives unsolicited bids for the purchase of coal. The same procedure used for evaluating solicited bids is used when evaluating the offer: determining the need for spot coal, cost, purchasing, sampling, and assessing penalties or premiums.

The Company's spot coal requirements are obtained through short-term commitments with terms that may range from one month to fifteen months duration.

During the review period of January 2004 through March 2005, the Company accepted 53 of 73 total spot coal bid requests, with total accepted spot coal tons of 2,619,000. The actual amount of spot coal received for this period is reflected in ORS's Audit Exhibit JRC-1.

## **EXHIBITS**

Exhibits relative to this proceeding are identified as follows:

### **AUDIT EXHIBIT JRC-1: COAL COST STATISTICS (AND WEIGHTED AVERAGE OF COAL RECEIVED)**

In Audit Exhibit JRC-1, Coal Cost Statistics, ORS compares spot and contract coal received for the period January 2004 through March 2005. The comparison is made in the following five (5) areas:

- (1) Tons Received
- (2) Percentage of Total Tons Received
- (3) Received Cost Per Ton
- (4) Total Received Cost

(5) Cost Per MBTU

This exhibit also reflects the total spot and contract tons received during the period January 2004 through March 2005. ORS has taken the total received cost for the fifteen (15) months and divided this by the total tons for the fifteen (15) months in arriving at a Weighted Average Cost per ton for the fifteen (15)-month period.

**AUDIT EXHIBIT JRC-2: RECEIVED COAL-COST PER TON (PER PLANT)**

This exhibit shows the received cost per ton for coal at each of PEC's plants for the period from January 2004 through March 2005, in dollars per ton including freight costs.

**AUDIT EXHIBIT JRC-3: RECEIVED COAL-COST PER TON COMPARISON**

This exhibit reflects the received cost per ton for coal for each month from January 2004 through March 2005 for PEC, Duke Power Company and South Carolina Electric & Gas Company. ORS has shown, for comparison purposes, the invoice cost per ton, freight cost per ton, total cost per ton and the cost per MBTU.

**AUDIT EXHIBIT JRC-4: COAL FUEL STOCKS—NUMBER OF DAYS OF SUPPLY  
(ALL PLANTS)**

This exhibit reflects PEC's coal inventory in terms of tons received, consumed, and on hand at the end of the month. The number of days of supply is also shown.

**AUDIT EXHIBIT JRC-5: TOTAL BURNED COST (FOSSIL AND NUCLEAR)**

This exhibit reflects the per book cost of burned fuel, including emission allowance expenses, used for generation for the period January 2004 through March 2005. The burned cost of each class of fuel is shown separately.

## **AUDIT EXHIBIT JRC-6: COST OF FUEL**

In Audit Exhibit JRC-6, ORS has computed the total fuel cost applicable to the factor computation. There are three (3) components used in arriving at this cost. These components are as follows:

- (1) Cost of Fuel Burned
- (2) Purchase and Interexchange Power Cost
- (3) Authorized Adjustments

**Cost of Fuel Burned**—This amount is the cost of all fossil and nuclear fuel burned during the period. The costs associated with emission allowances are also reflected. A detailed breakdown of coal, oil, gas, emission allowances and nuclear fuel can be seen in Audit Exhibit JRC-5.

**Purchase and Interchange Power Fuel Cost**— This amount is the monthly kilowatt hours delivered to or received by one electric utility from another electric utility.

**Authorized Adjustments**--- These are amounts decreasing the total fuel cost as authorized by regulatory agencies.

Total fuel cost applicable to the factor is computed by adding the cost of fuel burned to purchase and interchange power and authorized adjustments.

## **AUDIT EXHIBIT JRC-7: S.C. FUEL COSTS COMPUTATION**

Shown in this exhibit are the actual costs for January 2004 through March 2005 and the estimated fuel costs for April, May and June 2005.

## **AUDIT EXHIBIT JRC-8: AVOIDED COST AND OTHER PURCHASE POWER**

### **ADJUSTMENTS**

This exhibit provides the details of ORS's calculations for the adjustments made to the Company's Purchased Power Costs, on a total system basis, for the review period of January 2004

through March 2005. ORS calculated avoided cost adjustments and a transmission adjustment related to purchase power transactions.

**AUDIT EXHIBIT JRC-9: ADJUSTMENT FOR THE PREVIOUS CP&L DOCKET NO.**

**2003-1-E**

This exhibit reflects the details concerning an ORS adjustment to settle an outstanding CP&L Fuel PSC Docket -- Docket No. 2003-1-E.

CAROLINA POWER AND LIGHT COMPANY d/b/a PROGRESS ENERGY CAROLINAS, INC.  
COAL COST STATISTICS  
JANUARY 2004 - MARCH 2005

SPOT					
<u>MONTH</u>	<u>TONS RECEIVED</u>	<u>PERCENTAGE</u>	<u>COST/TON RECEIVED</u>	<u>TOTAL RECEIVED COST</u>	<u>\$/MBTU</u>
	TONS	%	\$	\$	\$
Jan-04	316,938.44	36.43%	46.43	14,715,587.54	1.8789
Feb-04	282,729.19	34.67%	50.48	14,271,674.51	2.0472
Mar-04	349,603.27	35.91%	50.40	17,621,524.77	2.0394
Apr-04	342,770.27	34.91%	52.07	17,849,732.14	2.1243
May-04	415,971.36	39.83%	51.20	21,299,166.91	2.0798
Jun-04	350,449.07	40.21%	53.84	18,866,621.62	2.2039
Jul-04	473,564.20	40.80%	55.58	26,319,591.32	2.2560
Aug-04	443,518.32	42.00%	59.81	26,525,331.50	2.4605
Sep-04	309,442.78	31.15%	57.66	17,842,658.30	2.3640
Oct-04	288,162.20	35.00%	53.55	15,430,264.00	2.1732
Nov-04	331,466.68	34.65%	61.97	20,540,228.38	2.5214
Dec-04	402,779.07	44.10%	65.14	26,237,676.39	2.6771
Jan-05	244,739.90	31.07%	70.96	17,366,088.34	2.8462
Feb-05	193,140.09	18.25%	74.58	14,404,948.07	2.9423
Mar-05	261,178.36	20.92%	79.97	20,886,154.30	3.1695
Totals (1/04 - 3/05)	5,006,453.20			290,177,248.09	

CONTRACT					
<u>MONTH</u>	<u>TONS RECEIVED</u>	<u>PERCENTAGE</u>	<u>COST/TON RECEIVED</u>	<u>TOTAL RECEIVED COST</u>	<u>\$/MBTU</u>
	TONS	%	\$	\$	\$
Jan-04	553,168.93	63.57%	51.54	28,510,175.79	2.0655
Feb-04	532,774.87	65.33%	47.51	25,311,019.62	1.9016
Mar-04	623,913.88	64.09%	46.18	28,810,154.90	1.8555
Apr-04	639,142.86	65.09%	50.46	32,252,576.70	2.0201
May-04	628,490.45	60.17%	50.32	31,626,987.55	2.0216
Jun-04	520,992.40	59.79%	52.56	27,382,363.69	2.1136
Jul-04	687,115.75	59.20%	59.64	40,979,989.51	2.3933
Aug-04	612,382.49	58.00%	56.09	34,348,361.03	2.2538
Sep-04	684,881.05	68.85%	53.93	36,885,802.39	2.1633
Oct-04	535,184.83	65.00%	54.00	28,898,102.03	2.1691
Nov-04	625,073.55	65.35%	52.80	33,005,172.19	2.1107
Dec-04	510,542.43	55.90%	64.81	33,088,570.32	2.6089
Jan-05	542,880.96	68.93%	59.35	32,220,611.71	2.3896
Feb-05	865,408.76	81.75%	60.09	52,000,162.73	2.4118
Mar-05	2,395,420.12	79.08%	60.25	144,328,461.30	2.4202
Totals (1/04 - 3/05)	10,957,373.33			609,648,511.46	

CAROLINA POWER AND LIGHT COMPANY d/b/a PROGRESS ENERGY CAROLINAS, INC.  
COAL COST STATISTICS  
JANUARY 2004 - MARCH 2005

COMBINED					
<u>MONTH</u>	<u>TONS RECEIVED</u>	<u>PERCENTAGE</u>	<u>COST/TON RECEIVED</u>	<u>TOTAL RECEIVED COST</u>	<u>\$/MBTU</u>
	TONS	%	\$	\$	\$
Jan-04	870,107.37	100.00%	49.68	43,225,763.33	1.9980
Feb-04	815,504.06	100.00%	48.54	39,582,694.13	1.9516
Mar-04	973,517.15	100.00%	47.69	46,431,679.67	1.9212
Apr-04	981,913.13	100.00%	51.03	50,102,308.84	2.0560
May-04	1,044,461.81	100.00%	50.67	52,926,154.46	2.0446
Jun-04	871,441.47	100.00%	53.07	46,248,985.31	2.1495
Jul-04	1,160,679.95	100.00%	57.98	67,299,580.83	2.3376
Aug-04	1,055,900.81	100.00%	57.65	60,873,692.53	2.3394
Sep-04	994,323.83	100.00%	55.04	54,728,460.69	2.2249
Oct-04	823,347.03	100.00%	53.84	44,328,366.03	2.1706
Nov-04	956,540.23	100.00%	55.98	53,545,400.57	2.2514
Dec-04	913,321.50	100.00%	64.96	59,326,246.71	2.6387
Jan-05	787,620.86	100.00%	62.96	49,586,700.05	2.5318
Feb-05	1,058,548.85	100.00%	62.73	66,405,110.80	2.5100
Mar-05	1,248,308.78	100.00%	63.66	196,985,651.99	2.5508
Totals (1/04 - 3/05)	<u>14,555,536.83</u>			<u>931,596,795.94</u>	

Total Received Cost	=	\$	931,596,795.94	=	\$	64.00
Total Tons Received			14,555,536.83			

Note: Prepared by the ORS Audit Staff.

CAROLINA POWER & LIGHT COMPANY d/b/a PROGRESS ENERGY CAROLINAS, INC.  
 RECEIVED COAL-COST PER TON (PER PLANT)  
 JANUARY 2004 - MARCH 2005

2004

<u>PLANT</u>	<u>JANUARY</u>	<u>FEBRUARY</u>	<u>MARCH</u>	<u>APRIL</u>	<u>MAY</u>	<u>JUNE</u>	<u>JULY</u>	<u>AUGUST</u>	<u>SEPTEMBER</u>	<u>OCTOBER</u>	<u>NOVEMBER</u>	<u>DECEMBER</u>
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
CAPE FEAR	54.56	52.22	46.11	49.79	52.01	51.48	63.37	53.15	82.55	60.57	53.24	53.95
WEATHERSPOON	48.70	37.31	43.12	51.52	76.39	58.16	54.44	56.18	47.95	63.75	59.82	58.17
LEE	50.42	46.75	46.70	47.23	46.55	46.48	62.61	49.77	15.71	47.82	49.81	50.38
SUTTON	43.18	40.90	49.31	50.66	52.56	53.99	51.58	80.34	109.15	54.75	49.36	74.29
ROBINSON	44.70	40.50	43.56	47.62	44.74	50.17	52.35	50.35	46.45	50.05	55.16	50.28
ASHEVILLE	46.37	49.89	46.10	52.77	48.91	55.74	54.18	56.20	54.79	56.02	58.64	80.16
ROXBORO 1-3	53.01	48.75	47.17	51.34	51.99	54.33	60.80	65.81	51.04	51.60	63.86	74.11
ROXBORO 4	50.43	55.23	48.73	52.49	49.16	52.48	57.60	25.33	58.84	56.88	34.77	275.73
MAYO	52.74	51.84	51.54	52.15	48.55	53.87	59.14	52.48	57.25	56.61	58.35	85.36
TOTAL	49.68	48.54	47.69	51.03	50.67	53.07	57.98	57.65	55.09	53.84	65.51	77.50

2005

<u>PLANT</u>	<u>JANUARY</u>	<u>FEBRUARY</u>	<u>MARCH</u>
	\$	\$	\$
CAPE FEAR	56.91	61.99	54.97
WEATHERSPOON	58.26	58.37	57.26
LEE	47.67	57.62	51.43
SUTTON	61.99	59.77	53.25
ROBINSON	58.17	56.39	66.57
ASHEVILLE	70.05	64.56	70.88
ROXBORO 1-3	61.10	58.50	58.69
ROXBORO 4	69.33	68.79	101.29
MAYO	69.19	74.10	71.52
TOTAL	62.96	62.73	64.74

Note: Prepared by the ORS Audit Staff.

**CAROLINA POWER LIGHT COMPANY d/b/a PROGRESS ENERGY CAROLINAS, INC.**  
**RECEIVED COAL- COST PER TON COMPARISON**  
**JANUARY 2004-MARCH 2005**

**CAROLINA POWER & LIGHT COMPANY d/b/a PROGRESS ENERGY CAROLINAS, INC.**

<u>MONTH</u>	<u>INVOICE COST PER</u> <u>TON</u> \$	<u>FREIGHT COST</u> <u>PER TON</u> \$	<u>TOTAL COST PER</u> <u>TON</u> \$	<u>COST PER MBTU</u> \$
Jan-04	34.84	14.84	49.68	1.9980
Feb-04	34.39	14.15	48.54	1.9516
Mar-04	33.63	14.06	47.69	1.9212
Apr-04	36.42	14.61	51.03	2.0560
May-04	35.64	15.04	50.68	2.0446
Jun-04	38.54	14.54	53.08	2.1495
Jul-04	44.20	13.78	57.98	2.3376
Aug-04	43.73	13.92	57.65	2.3394
Sep-04	41.02	14.02	55.04	2.2249
Oct-04	38.67	15.17	53.84	2.1706
Nov-04	41.14	14.84	55.98	2.2514
Dec-04	46.81	18.15	64.96	2.6387
Jan-05	44.38	18.58	62.96	2.5318
Feb-05	44.43	18.30	62.73	2.5100
Mar-05	45.52	18.14	63.66	2.5508

**DUKE POWER COMPANY**

<u>MONTH</u>	<u>INVOICE COST PER</u> <u>TON</u> \$	<u>FREIGHT COST</u> <u>PER TON</u> \$	<u>TOTAL COST PER</u> <u>TON</u> \$	<u>COST PER MBTU</u> \$
Jan-04	31.43	15.29	46.72	1.8970
Feb-04	31.25	15.40	46.65	1.8999
Mar-04	32.02	15.68	47.70	1.9387
Apr-04	32.18	15.41	47.59	1.9331
May-04	32.46	15.55	48.01	1.9591
Jun-04	32.05	16.54	48.59	1.9922
Jul-04	33.39	16.80	50.19	2.0517
Aug-04	34.25	16.52	50.77	2.0639
Sep-04	33.74	16.76	50.50	2.0631
Oct-04	32.17	16.54	48.71	1.9980
Nov-04	35.08	14.56	49.64	2.0264
Dec-04	33.79	17.42	51.21	2.1058
Jan-05	35.89	16.92	52.81	2.1615
Feb-05	37.66	16.29	53.95	2.1993
Mar-05	37.21	17.98	55.19	2.2537



CAROLINA POWER LIGHT COMPANY d/b/a PROGRESS ENERGY CAROLINAS, INC.  
RECEIVED COAL- COST PER TON COMPARISON  
JANUARY 2004-MARCH 2005

SOUTH CAROLINA ELECTRIC & GAS COMPANY

<u>MONTH</u>	<u>INVOICE COST PER</u> <u>TON</u> \$	<u>FREIGHT COST</u> <u>PER TON</u> \$	<u>TOTAL COST PER</u> <u>TON</u> \$	<u>COST PER MBTU</u> \$
Jan-04	32.00	12.43	44.43	1.7567
Feb-04	33.14	13.62	46.76	1.8519
Mar-04	33.19	13.62	46.81	1.8470
Apr-04	37.53	13.40	50.93	2.0176
May-04	37.52	12.07	49.59	1.9566
Jun-04	39.53	12.92	52.45	2.0821
Jul-04	35.93	12.61	48.54	1.9187
Aug-04	41.14	11.26	52.40	2.0844
Sep-04	38.07	14.20	52.27	2.0901
Oct-04	37.82	13.17	50.99	2.0357
Nov-04	43.54	11.34	54.88	2.1668
Dec-04	37.47	12.94	50.41	2.0026
Jan-05	49.94	10.74	60.68	2.3853
Feb-05	58.66	15.49	74.15	2.3205
Mar-05	61.03	12.41	73.44	2.4081

Note: Prepared by the ORS Audit Staff.

**CAROLINA POWER & LIGHT COMPANY d/b/a PROGRESS ENERGY CAROLINAS, INC.**  
**COAL FUEL STOCKS - NUMBER OF DAYS OF SUPPLY (ALL PLANTS)**  
**JANUARY 2004 - MARCH 2005**

<u>MONTH</u>	<u>TONS BEGINNING OF MONTH</u>	<u>TONS RECEIVED DURING MONTH</u>	<u>TONS CONSUMED DURING MONTH</u>	<u>BALANCE END OF MONTH</u>	<u>NUMBER OF DAYS OF SUPPLY</u>
	TONS	TONS	TONS	TONS	DAYS
Jan-04	1,569,432	870,107	1,097,260	1,342,279	33
Feb-04	1,342,279	815,504	1,075,001	1,082,783	27
Mar-04	1,082,783	973,517	1,046,372	1,009,928	25
Apr-04	1,009,928	981,913	855,541	1,136,300	28
May-04	1,136,300	1,044,461	1,122,932	1,057,829	26
Jun-04	1,057,829	871,441	984,654	944,616	23
Jul-04	944,616	1,160,680	1,104,734	1,000,562	25
Aug-04	1,000,562	1,055,901	1,050,920	1,005,543	25
Sep-04	1,005,543	993,387	776,961	1,221,969	30
Oct-04	1,221,969	823,347	808,256	1,237,060	30
Nov-04	1,237,060	956,540	852,090	1,341,510	33
Dec-04	1,341,510	765,489	966,731	1,140,268	28
Jan-05	1,140,268	787,621	996,935	930,954	23
Feb-05	930,954	1,058,549	947,318	1,042,185	26
Mar-05	1,042,185	1,251,028	1,080,416	1,212,797	30

Note: Prepared by the ORS Audit Staff.

**AUDIT EXHIBIT JRC-5**

**CAROLINA POWER & LIGHT COMPANY d/b/a PROGRESS ENERGY CAROLINAS, INC.  
TOTAL BURNED COST (FOSSIL AND NUCLEAR) \*  
JANUARY 2004 - MARCH 2005**

<u>MONTH</u>	<u>COAL</u>	<u>OIL</u>	<u>GAS</u>	<u>EMISSION ALLOWANCES</u>	<u>NUCLEAR</u>	<u>TOTAL BURNED COST</u>
	\$	\$	\$	\$	\$	\$
Jan-04	54,826,102	1,507,612	12,363,039	529,923	10,003,332	79,230,008
Feb-04	54,214,057	116,444	7,944,536	539,363	9,201,723	72,016,123
Mar-05	50,904,646	416,997	2,153,400	525,998	7,140,170	61,141,211
Apr-04	42,277,419	588,268	2,860,153	670,954	8,297,667	54,694,461
May-04	56,288,994	1,164,852	26,320,176	834,132	6,432,698	91,040,852
Jun-04	50,898,268	712,139	13,339,876	213,288	9,250,298	74,413,869
Jul-04	57,315,363	479,053	21,735,059	532,677	9,411,550	89,473,702
Aug-04	61,712,537	452,824	20,282,795	469,232	9,208,408	92,125,796
Sep-04	44,411,732	597,404	12,932,047	296,180	9,563,323	67,800,686
Oct-04	44,453,511	493,064	2,675,429	394,535	8,352,901	56,369,440
Nov-04	46,805,344	709,980	3,625,774	371,966	8,014,965	59,528,029
Dec-04	55,647,058	2,021,704	11,646,378	2,029,558	9,665,709	81,010,407
Jan-05	67,960,690	2,521,801	14,555,461	948,112	9,712,533	95,698,597
Feb-05	61,333,388	550,835	5,810,450	1,994,071	8,571,138	78,259,882
Mar-05	68,841,632	1,089,832	15,662,451	2,814,284	7,623,023	96,031,222
<b>TOTALS</b>	<b>817,890,741</b>	<b>13,422,809</b>	<b>173,907,024</b>	<b>13,164,273</b>	<b>130,449,438</b>	<b>1,148,834,285</b>

\* Includes Emission Allowances

Note: Prepared by the ORS Audit Staff

**AUDIT EXHIBIT JRC-6**

**CAROLINA POWER & LIGHT COMPANY d/b/a PROGRESS ENERGY CAROLINAS, INC.  
COST OF FUEL  
JANUARY 2004 - MARCH 2005**

<u>MONTH</u>	<u>COST OF FUEL BURNED</u>	<u>PURCHASE AND INTERCHANGE POWER FUEL COSTS</u>	<u>FUEL COST RECOVERED INTERSYSTEM SALES</u>	<u>TOTAL NET FUEL COST</u>
	\$	\$	\$	\$
Jan-04	79,230,008	8,556,227	(16,895,217)	70,891,018
Feb-04	72,016,123	6,378,921	(15,792,461)	62,602,583
Mar-04	61,141,211	7,732,975	(10,147,416)	58,726,770
Apr-04	54,694,461	7,254,828	(10,875,147)	51,074,142
May-04	91,040,852	21,410,359	(9,602,590)	102,848,621
Jun-04	74,413,869	12,320,294	(9,990,851)	76,743,312
Jul-04	89,473,702	17,455,314	(12,253,765)	94,675,251
Aug-04	92,125,796	12,907,047	(10,552,810)	94,480,033
Sep-04	67,800,686	11,895,666	(2,917,437)	76,778,915
Oct-04	56,369,440	7,832,928	(9,107,258)	55,095,110
Nov-04	59,528,029	8,645,561	(7,532,549)	60,641,041
Dec-04	81,010,407	11,422,891	(14,590,253)	77,843,045
Jan-05	95,698,597	12,081,732	(17,427,354)	90,352,975
Feb-05	78,259,882	7,724,460	(12,928,045)	73,056,297
Mar-05	96,031,222	10,690,934	(20,373,134)	86,349,022
<b>Total</b>	<b>1,148,834,285</b>	<b>164,310,137</b>	<b>(180,986,287)</b>	<b>1,132,158,135</b>

Note: Prepared by the ORS Audit Staff.

CAROLINA POWER & LIGHT COMPANY d/b/a PROGRESS ENERGY CAROLINAS, INC.  
SOUTH CAROLINA FUEL COST COMPUTATION  
JANUARY 2004 - JUNE 2005

	ACTUAL											
	January 2004	February 2004	March 2004	April 2004	May 2004	June 2004	July 2004	August 2004	September 2004			
Fossil Fuel	69,226,676	62,814,401	54,001,042	46,396,794	84,608,155	65,163,571	80,062,152	82,917,388	58,237,363			
Nuclear Fuel	10,003,332	9,201,723	7,140,170	8,297,667	6,432,698	9,250,298	9,411,550	9,208,408	9,563,323			
Purchased Power (2)	8,556,227	6,378,921	7,732,975	7,254,828	21,410,359	12,320,294	17,455,314	12,907,047	11,895,666			
Sub-total	87,786,235	78,395,045	68,874,187	61,949,289	112,451,212	86,734,163	106,929,016	105,032,843	79,696,352			
Less: Intersystem Sales	16,895,217	15,792,461	10,147,416	10,875,147	9,602,590	9,990,851	12,253,765	10,552,810	2,917,437			
Net Fuel Costs	70,891,018	62,602,584	58,726,771	51,074,142	102,848,622	76,743,312	94,675,251	94,480,033	76,778,915			
Total System KWH Sales (000's)	4,530,205	4,578,139	4,185,739	3,848,207	3,788,222	4,658,707	4,912,348	4,826,877	4,575,051			
\$/KWH	0.01565	0.01367	0.01403	0.01327	0.02715	0.01647	0.01927	0.01957	0.01678			
Less: Base	0.01471	0.01471	0.01471	0.01471	0.01471	0.01471	0.01471	0.01471	0.01471			
Fuel Adjustment/KWH	(0.00094)	0.00104	0.00068	0.00144	(0.01244)	(0.00176)	(0.00456)	(0.00486)	(0.00207)			
S.C. KWH Sales	630,892,125	626,546,693	601,056,441	553,395,893	530,278,072	685,898,072	700,845,232	668,186,495	659,502,230			
Deferred Fuel Entry	(593,039)	651,609	408,718	796,890	(6,596,659)	(1,207,181)	(3,195,854)	(3,247,386)	(1,365,170)			
December 2003 (1)	(6,038,891)											
Accounting Adjustment												
Cumulative Over/(Under) Recovery	(6,631,930)	(5,980,321)	(5,571,603)	(4,774,713)	(11,371,372)	(12,578,553)	(15,774,407)	(19,021,793)	(20,386,963)			

Please Note:

In Audit Exhibit JRC-7, ORS reflects Over-Recovery amounts without parentheses and reflects (Under)-Recovery amounts within parentheses.

\*Explanation of Footnotes on Audit Exhibit JRC-7, Page 3 of 4 and Page 4 of 4.

Note: Prepared by the ORS Audit Staff.

CAROLINA POWER & LIGHT COMPANY d/b/a PROGRESS ENERGY CAROLINAS, INC.  
SOUTH CAROLINA FUEL COST COMPUTATION  
JANUARY 2004 - JUNE 2005

	ACTUAL					ESTIMATED				
	October 2004	November 2004	December 2004	January 2005	February 2005	March 2005	April 2005	May 2005	June 2005	
Fossil Fuel	48,016,539	51,513,064	71,344,698	85,986,064	69,688,744	88,408,199	74,943,900	77,316,300	101,819,900	
Nuclear Fuel	8,352,901	8,014,965	9,665,709	9,712,533	8,571,138	7,623,023	8,408,500	9,697,500	9,397,200	
Purchased Power (2)	7,832,928	8,645,561	11,422,891	12,081,732	7,724,460	10,690,934	9,502,800	9,252,900	11,875,500	
Subtotal	64,202,368	68,173,590	92,433,298	107,780,329	85,984,342	106,722,156	92,855,200	96,266,700	123,092,600	
Less: Intersystem Sales	9,107,258	7,532,549	14,590,253	17,427,354	12,928,045	20,373,134	18,226,500	11,643,000	14,743,100	
Net Fuel Costs	55,095,110	60,641,041	77,843,045	90,352,975	73,056,297	86,349,022	74,628,700	84,623,700	108,349,500	
Total System KWH Sales	3,917,030	3,717,156	4,286,650	4,550,908	4,522,714	4,317,262	3,940,127	4,077,318	4,600,090	
\$/KWH	0.01407	0.01631	0.01816	0.01985	0.01615	0.02000	0.01894	0.02075	0.02355	
Less: Base	0.01471	0.01471	0.01471	0.01471	0.01471	0.01471	0.01471	0.01471	0.01471	
Fuel Adjustment/KWH	0.00064	(0.00160)	(0.00345)	(0.00514)	(0.00144)	(0.00529)	(0.00423)	(0.00604)	(0.00884)	
S.C. KWH Sales	570,907,426	511,510,794	596,408,640	616,099,915	606,933,897	557,383,936	551,670,000	562,084,000	646,361,000	
Deferred Fuel Entry	365,381	(818,417)	(2,057,610)	(3,166,754)	(873,985)	(2,948,561)	(2,333,564)	(3,394,987)	(5,713,831)	
September 2004 - (p. 1 of 2)	(20,386,963)		(18,500)	(3)		1,906,438	(4)			
Accounting Adjustment										
Cumulative Over/(Under)	(20,021,582)	(20,839,999)	(22,916,109)	(26,082,863)	(26,956,848)	(27,998,971)	(30,332,535)	(33,727,522)	(39,441,353)	
Recovery										

Please Note:  
In Audit Exhibit JRC-7, ORS reflects Over-Recovery amounts without parentheses and reflects (Under)-Recovery amounts within parentheses.

\*Explanation of Footnotes on Audit Exhibit JRC-7, Page 3 of 4 and Page 4 of 4.

Note: Prepared by the ORS Audit Staff.

**Carolina Power & Light Company  
d/b/a Progress Energy Carolinas, Inc.  
South Carolina Fuel Cost Computation  
January 2004 – June 2005**

**Explanation of Footnotes to Audit Exhibit JRC-7:**

- (1) ORS's cumulative (under)-recovery balance brought forward from December 2003 of (\$6,038,891), as reflected on this exhibit, is the amount of the cumulative (under)-recovery balance as of December 2003, as shown on the PSC "Commission Staff Report" (Audit Exhibit G-Page 2 of 3), from Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc.'s last fuel review period (actual January 2003 – December 2003), Docket No. 2004-1-E. This (under)-recovery balance of (\$6,038,891) differs from the Company's beginning cumulative (under)-recovery balance from December 2003 by \$948,476. This beginning cumulative difference is based on the PSC Staff's corrections from the last fuel review period. It should be noted that PEC, in its testimony, includes an applicable adjustment of \$948,472 (with a \$4 rounding difference) to March 2004's monthly deferred entry.
- (2) ORS's Purchased Power figures for January 2004 through March 2005 and the resultant over (under)-recovery monthly deferred fuel amounts for January 2004 through March 2005 reflects ORS's compliance with the revised section of the S.C. Fuel Statute (updated as of February 2004), S.C. Code Ann. §58-27-865(A). This Statute addresses "fuel costs related to purchased power." Sub-section (A)(2)(b) of the revised Statute stated that the delivered cost of economy purchases, including transmission charges, could be included in Purchased Power Costs if those types of purchases were proven to be "less than the purchasing utility's avoided variable costs for the generation of an equivalent quantity of electric power." After ORS applied this revised Statute to the examined economic purchases along with the applicable avoided cost, ORS's adjustment to Purchased Power Costs, on a total system basis, totaled (\$171,610). This figure reflects the usage of an avoided cost as a lesser price, at that point in time, over a purchase price.

As mentioned previously, according to the new Statute section, transmission charges could be included in the delivered cost of purchases. However, ORS made an adjustment in March 2004 to Purchased Power Costs to exclude a transmission charge totaling \$587,500 because the transmission charge was reflected with no corresponding purchase for that month. Since the purchase transaction was \$-0-, ORS excluded the fixed transmission charge – (\$587,500). ORS reduced Purchased Power Costs, on a total system basis, for a total of (\$759,110). See **Audit Exhibit JRC-8** for details.

**Carolina Power & Light Company  
d/b/a Progress Energy Carolinas, Inc.  
South Carolina Fuel Cost Computation  
January 2004 – June 2005**

**Explanation of Footnotes to Audit Exhibit JRC-7:**

- (3) In December 2004, the Company made an adjustment to reflect a correction to its S.C. KWH Sales from November 2004. The sales had been understated for that month. This true-up adjustment was reflected as an additional monthly entry to the Deferred Fuel Account as an (under)-recovery entry of (\$18,500). ORS agreed with this adjustment.
- (4) ORS made an adjustment for an outstanding PSC Fuel Docket of PEC, Docket No.2003-1-E. In January 2004, the Richland County Circuit Court, in an appeal of the fuel cases of Duke and SCE&G, ruled on the interpretation of the definition section of fuel costs related to purchase power transactions based on the S.C. Fuel Statute that was current at that time. The Court ruled that the avoided cost proxy that was used in S.C. to handle non-identifiable fuel costs in purchase transactions was not allowed under the S.C. Fuel Statute. CP&L agreed to be bound by the decision of the Court in the appeal. Therefore, to resolve the outstanding CP&L (PEC) docket, which dealt with this issue, ORS proposed the use of the N.C. Public Staff's Fuel Cost Proxy Percentages for that review year of 2002. The adjustment is reflected in the S.C. Jurisdictional cumulative balance of the Deferred Account as an over-recovery amount of \$1,906,438. See Audit Exhibit JRC-9 for details.



CAROLINA POWER & LIGHT COMPANY d/b/a PROGRESS ENERGY CAROLINAS, INC.  
AVOIDED COST AND OTHER PURCHASE POWER ADJUSTMENTS  
JANUARY 2004 - MARCH 2005

MONTH	COMPANY/TYPE OF POWER	AVOIDED COST	AVERAGE ENERGY COST	ADJUSTMENT
Jan-04		-	-	-
Feb-04	Company A - Generation	12,002	13,456	(1,454)
Mar-04	Company B - Open Tariff	11,814	20,500	(8,686)
	Company C - Open Tariff	82,745	95,500	(12,755)
	Company A - Generation	1,712	2,727	(1,015)
	Company D - Open Tariff	25,904	33,000	(7,096)
		<u>122,175</u>	<u>151,727</u>	<u>(29,552)</u>
Apr-04	Company E - Open Tariff	18,396	22,932	(4,536)
	Company C - Open Tariff	150,483	198,716	(48,233)
	Company A - Generation	2,210	4,489	(2,279)
	Company F - Open Tariff	18,396	24,336	(5,940)
	Company G - Open Tariff	13,241	15,088	(1,847)
	Company D - Open Tariff	78,508	93,481	(14,973)
		<u>281,234</u>	<u>359,042</u>	<u>(77,808)</u>
May-04	Company A - Generation	26,493	28,362	(1,869)
	Company A - Open Tariff	166,909	200,800	(33,891)
	Company H - Open Tariff	3,943	5,400	(1,457)
	Company I - Emergency	14,195	16,896	(2,701)
		<u>211,540</u>	<u>251,458</u>	<u>(39,918)</u>
Jun-04	Company A - Generation	12,667	14,269	(1,602)
Jul-04	Company A - Generation	11,801	12,950	(1,149)
Aug-04	Company A - Generation	16,093	19,165	(3,072)
	Company D - Open Tariff	26,032	28,288	(2,256)
		<u>42,125</u>	<u>47,453</u>	<u>(5,328)</u>
Sep-04	Company A - Generation	896	899	(3)
Oct-04	Company J - Open Tariff	4,166	4,472	(306)
	Company D - Open Tariff	53,073	54,480	(1,407)
		<u>57,239</u>	<u>58,952</u>	<u>(1,713)</u>
Nov-04	Company A - Generation	10,334	23,241	(12,907)
	Company F - Open Tariff	1,924	2,100	(176)
		<u>12,258</u>	<u>25,341</u>	<u>(13,083)</u>
Dec-04		-	-	-
Jan-05		-	-	-
Feb-05		-	-	-
Mar-05		-	-	-
	Total Avoided Cost Adjustment	<u>763,937</u>	<u>935,547</u>	<u>(171,610)</u>

Other Purchase Power Adjustments

Mar-04 American Electric - Rockport (AEP)	Transmission Cost of \$587,500; \$0 Purchased in March 2004. ORS excludes Transmission Cost	(587,500)
	Total Purchase Power Adjustments	<u>(759,110)</u>

Note: Prepared by the ORS Audit Staff

**CAROLINA POWER & LIGHT COMPANY d/b/a PROGRESS ENERGY CAROLINAS, INC.**  
**AVOIDED COST AND OTHER PURCHASE POWER ADJUSTMENTS**  
**JANUARY 2004 - MARCH 2005**

<u>Month</u>	<b>Company's Purchased Power</b>	<b>ORS Purchased Power Adjustment</b>	<b>ORS Revised Purchased Power</b>
Jan-04	8,556,227	0	8,556,227
Feb-04	6,380,375	(1,454)	6,378,921
Mar-04	8,350,027	(617,052) (1)	7,732,975
Apr-04	7,332,636	(77,808)	7,254,828
May-04	21,450,277	(39,918)	21,410,359
Jun-04	12,321,896	(1,602)	12,320,294
Jul-04	17,456,463	(1,149)	17,455,314
Aug-04	12,912,375	(5,328)	12,907,047
Sep-04	11,895,669	(3)	11,895,666
Oct-04	7,834,641	(1,713)	7,832,928
Nov-04	8,658,644	(13,083)	8,645,561
Dec-04	11,422,891	0	11,422,891
Jan-05	12,081,732	0	12,081,732
Feb-05	7,724,460	0	7,724,460
Mar-05	10,690,934	0	10,690,934
<b>Total</b>	<b>165,069,247</b>	<b>(759,110)</b>	<b>164,310,137</b>

(1) This amount includes avoided cost adjustments of (\$29,552) and transmission charges of (\$587,500).

**Note:** Prepared by the ORS Audit Staff

**Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc.**

**Adjustment for the Previous CP&L Docket No. 2003-1-E**

**For Purchased Power Info --- Jan. 2002 - Dec. 2002 (Actual)**

Adjustment to settle the outstanding CP&L 2003 Fuel Case --- PSC Docket No. 2003-1-E:

In January 2004, the Richland County Circuit Court, in an appeal of fuel cases of Duke and SCE&G, ruled that the avoided cost methodology approved by the PSC to handle non-identifiable fuel costs on purchase transactions was not allowed under the definition section of the fuel statute. Therefore, to expedite the outstanding CP&L 2003 Fuel Case which dealt with this issue and to recognize that there are fuel costs, of some degree, in most purchase transactions, the ORS proposes to use the N.C. Public Staff's Fuel Cost Proxy Percentages for the year of Jan. 2002 - Dec. 2002. The proxy was 60% from 1/02 through 3/02 and 61% from 4/02 through 12/02, based on N.C.'s effective fuel factor date. ORS proposes to use the fuel information for that period since the information is readily available and verifiable.

	\$
S.C.'s Cumulative Deferred (Under)-Recovery Bal. @ 12/02	(7,393,266)
Reversal of PEC's Avoided Cost Adj. to the Cumul. Def. Acct. Reverse from an Over-Recovery to an (Under)-Recovery Amt. (Docket No. 2003-1-E)	(79,023)
	<hr/>
<b>Revised S.C. Cumul. Def. (Under)-Recovery Bal. @ 12/02</b>	<b>(7,472,289)</b>
S.C.'s Cumul. Def. (Under)-Recovery Bal. @ 12/02--Using the N.C. Public Staff's Fuel Cost Proxy of 60% and 61% (both used in 2002), when there is non-identifiable fuel info on purchases from other utilities/marketers.	<u>(5,565,851)</u>
ORS Adjustment for PEC's Open PSC Docket No. 2003-1-E-- <b>An Over-Recovery Adjustment Effect</b>	<u><u>1,906,438</u></u>

**Note:** Prepared by the ORS Audit Staff.